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DAN F. ARNETT  
CHIEF OF STAFF

October 5, 2006

**VIA E-FILING & HAND DELIVERY**

The Honorable Charles L.A. Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Center Dr., Suite 100  
Columbia, SC 29210

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2006 OCT -6 AM 11:30  
SC PUBLIC SERVICE  
COMMISSION

Re: Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of  
South Carolina Electric and Gas Company  
**Docket No. 2006-5-G**

Dear Mr. Terreni:

Enclosed please find the original and one copy of the Direct Testimony and Exhibits of Carey M. Flynt and Paul B. Townes in the above referenced docket.

Please note that the attached documents are exact duplicates, with the exception of the form of the signature, of the e-filed copy submitted to the Commission in accordance with its electronic filing instructions.

By copy of this letter we are also serving all other parties of record. Please let me know if you have any questions.

Sincerely,

  
Jeffrey M. Nelson

JMN/pjm  
Enclosures

cc: Patricia Banks Morrison, Esquire  
Belton T. Zeigler, Esquire  
Scott Elliott, Esquire  
John P. Boyd, Esquire

# THE OFFICE OF REGULATORY STAFF

## DIRECT TESTIMONY AND EXHIBITS

OF

Carey M. Flynt



**DOCKET NO. 2006-5-G**  
**South Carolina Electric and Gas Company**  
**Purchase Gas Adjustment**

SO. CAROLINA  
COMMISSION  
PUBLIC SERVICE

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**DIRECT TESTIMONY OF CAREY M. FLYNT**

**FOR**

**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2006-5-G**

**IN RE: SOUTH CAROLINA ELECTRIC & GAS, COMPANY, INC.**

**("PGA PURCHASED GAS ADJUSTMENT")**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Carey M. Flynt. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Manager of the Gas Department for the South Carolina Office of Regulatory Staff ("ORS").

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received a Bachelor of Science Degree in Business Administration, with a major in Accounting from the University of South Carolina in Columbia in 1975. I was employed at that time in the electric and gas utility industry and have twenty-five years experience in this field. I joined the South Carolina Office of Regulatory Staff in October, 2004 in my present position. I have testified on numerous occasions before the Public Service

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**THE OFFICE OF REGULATORY STAFF  
1441 Main Street, Suite 300  
Post Office Box 11263 (29211)  
Columbia, SC 29201**

Commission of South Carolina ("Commission") in conjunction with natural gas issues.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

**A.** The purpose of my testimony is to present ORS's findings and recommendations resulting from the review of South Carolina Electric and Gas Company's ("SCE&G") or ("Company") natural gas purchasing policies, industrial sales program rider (ISPR), and the operation of the Purchased Gas Adjustment Clause ("PGA").

For the forecast period of November 2006 through October 2007, ORS also reviewed SCE&G's supply and capacity asset management plans. As the Commission is aware, beginning November 1, 2006, South Carolina Pipeline Corporation ("SCPC") intends to begin operating as an interstate pipeline under federal jurisdiction and can no longer provide bundled supply and capacity service to its customers.

ORS also reviewed the cost of gas factor for the firm customers for the forecast period November 2006 through October, 2007

**Q. PLEASE WHAT ARE ORS'S FINDINGS WITH REGARD TO THE COMPANY'S GAS PURCHASING POLICIES DURING THE REVIEW PERIOD?**

1   **A.**   SCE&G purchased all gas supplies from SCPC under Commission  
2       approved tariffs and procedures. SCE&G's gas purchasing  
3       practices and policies were in accordance with Commission  
4       Order No. 2005-653 and enabled the Company to receive  
5       adequate supplies of firm gas to meet its customers' needs.

6   **Q.**   **DOES ORS BELIEVE THE OPERATION OF THE COMPANY'S INDUSTRIAL**  
7       **SALES PROGRAM RIDER SHOULD CONTINUE?**

8   **A.**   Yes.   ORS believes that this type of program or mechanism  
9       is required for a natural gas utility to effectively  
10      compete with alternate fuels in the industrial market. The  
11      Commission in its Order No. 83-876 Dated December 28, 1983,  
12      in Docket No. 83-128-G, approved SCE&G's use of a Temporary  
13      Gas Cost Rider. During the review period, SCE&G's ISPR  
14      customers' needs were supplied by SCPC. Once SCPC switches  
15      to an interstate pipeline, their needs will be met by  
16      SCE&G. The ISPR customers should see no impact from this  
17      change.

18   **Q.**   **PLEASE DESCRIBE THE COMPANY'S GAS COST RECOVERY PROCEDURES**  
19       **APPROVED BY THIS COMMISSION.**

20   **A.**   This Commission approved SCE&G's current gas cost recovery  
21       mechanism in Order No. 2005-653, dated November 8, 2005.  
22       In that order, the change to a two-part cost of gas  
23       recovery mechanism was approved. That mechanism involves a

1 commodity component which is calculated to recover the  
2 commodity cost of gas purchased and a demand component  
3 which is calculated to recover the associated capacity cost  
4 of ensuring firm gas supplies can be delivered into SCE&G's  
5 system. The demand charges include the fixed charges by  
6 upstream pipelines for transportation and storage services.

7 **Q. PLEASE DISCUSS THE OPERATION OF THE TWO-PART COST OF GAS**  
8 **RECOVERY MECHANISM.**

9 **A.** All firm customers are charged the same Firm Commodity  
10 Benchmark. However, the Demand Charges component is  
11 calculated for each customer class based on its  
12 contribution to peak design day demand ("PDDD"). Added  
13 together, these two components equal the PGA factor for  
14 each customer class.

15 In computing the Demand Charges component, SCE&G's net  
16 revenues generated from interruptible sales and  
17 transportation service are credited against the net fixed  
18 upstream pipeline charges. In addition, credits are made to  
19 reflect the sales of upstream assets through capacity  
20 release markets.

21 **Q. PLEASE DISCUSS THE CALCULATION OF THE MONTHLY OVER OR UNDER**  
22 **RECOVERY OF GAS COSTS FOR FIRM CUSTOMERS.**

1 A. The Company calculates monthly over and under balances  
2 separately for the Firm Commodity Benchmark and for the  
3 Demand Charges component. Each customer class carries  
4 forward its own net balance of over and under collections  
5 monthly. These calculations are filed with the ORS each  
6 month and ORS audits them annually in this proceeding.

7 Q. DURING THE REVIEW PERIOD DID SCE&G FILE WITH THE COMMISSION  
8 ADJUSTMENTS IN THE PGA FACTORS RESULTING FROM CHANGES IN  
9 SUPPLIER GAS COSTS?

10 A. Yes. Under the provisions of Order No. 2005-653, SCE&G is  
11 allowed to make monthly adjustments in PGA factors as  
12 supplier gas cost change. These changes are more fully  
13 detailed in Mr. Paul Townes Testimony.

14 Q. WHAT ARE ORS'S FINDINGS REGARDING THE COMPANY'S PURCHASED  
15 GAS ADJUSTMENT CLAUSE FOR THE REVIEW PERIOD?

16 A. ORS finds during the review period, SCE&G recovered its gas  
17 costs consistent with the currently commission approved  
18 tariffs and Commission Orders.

19 Q. WHAT PROCEDURES HAS THE COMPANY USED IN ESTABLISHING THE  
20 COST OF GAS FOR THE TWELVE MONTH PERIOD BEGINNING IN  
21 NOVEMBER 2006?

22 A. The procedures used in projecting the cost of gas are as  
23 follows:

1 A) Gas costs are based on the historical twelve months  
2 actual gas cost from September 2005 through August 2006.  
3 These gas costs are then adjusted for known and measurable  
4 changes for the forecasted period November 2006 through  
5 October 2007. Specifically, these projected gas costs  
6 include the currently approved rates of Carolina Gas  
7 Transmission Corporation, Southern Natural Gas ("Southern")  
8 and Transcontinental Gas Pipeline Corporation ("Transco").  
9 In addition, these gas costs reflect projected well head  
10 commodity prices as reported on the New York Mercantile  
11 Exchange ("NYMEX") twelve-month strip.

12 B) The calculated cost of gas is then multiplied by the  
13 forecasted sales for the period November 2006 through  
14 October 2007. The forecasted sales used are developed to  
15 reflect normal weather.

16 Q. FOR THE FOLLOWING TWELVE MONTH PERIOD BEGINNING NOVEMBER  
17 2006, HAS ORS REVIEWED THE DEVELOPMENT OF THE COMPANY'S  
18 PEAK DESIGN DAY AS SET FORTH IN THE PREFILED TESTIMONY OF  
19 COMPANY WITNESS R. DOW BAILEY?

20 A. Yes. ORS Staff reviewed the development of the Company's  
21 peak day design. ORS found the methods, multiple regression  
22 models and ARIMA modeling ("Autoregression, Integration,  
23 Moving Average"), appropriately weigh data and business



1 judgment to develop SCE&G's peak design day. The  
2 disaggregation of customers into groups based on rates,  
3 large and small usage, and furnace efficiency is  
4 appropriate in light of the differential sensitivity of  
5 groups to temperatures and of threshold temperatures below  
6 which consumption rapidly increases. In effect, the  
7 regression models take long-term data and analyze trends by  
8 groups according to their susceptibility to influences that  
9 arise in the short term. ARIMA is sensitive to multiple  
10 factors, each of which can produce small sudden changes,  
11 whose effects can vary or diminish rapidly. The steps of  
12 this modeling process are iterative, so that, with each  
13 iteration, business judgment can be applied to bring the  
14 model into conformance with real-world experience. The  
15 combination of the two procedures allows SCE&G to weigh  
16 factors with immediate impacts and to assess longer-term  
17 trends less susceptible to such factors, such as trends  
18 among customers whose consumption is not much influenced by  
19 weather. This approach is appropriate for a forecast for  
20 the purposes of a PGA.

21 Q. HAS ORS REVIEWED THE SHARING ARRANGEMENTS FOR INTERSTATE  
22 CAPACITY AMONG THE SCE&G'S ELECTRIC AND GAS BUSINESS  
23 SEGMENTS?

1   **A.**   Yes. The prefiled testimony of Witness Phalen addresses the  
2       terms of a just recently completed 2006 Memorandum of  
3       Understanding ("MOU") regarding gas supply sharing among  
4       SCE&G'S electric and gas business segments. This 2006 MOU,  
5       replaces the 2005 MOU and the contract for a Resale Firm  
6       Transportation Peaking service with the Jasper plant. As a  
7       result of SCPC transitioning to an interstate  
8       transportation pipeline, ORS agrees with the Company's  
9       request to eliminate the supply diversity reporting  
10      requirements of Order No. 2004-247, Docket No. 2002-5-G.

11   **Q.**   **HAS SCE&G PROPOSED CHANGES TO ITS GENERAL TERMS AND**  
12       **CONDITIONS ADDRESSING CURTAILMENT OF NATURAL GAS TO**  
13       **CUSTOMERS?**

14   **A.**   Yes. ORS has reviewed the following proposed additional  
15       requirements applicable to the Company's General Terms and  
16       Conditions requesting the modification of Tariff and  
17       Service agreements to permit:

- 18       • Curtailment of gas service to customers within a  
19       geographical area or areas by curtailment category.
- 20       • Modification of tariffs to assess a penalty against those  
21       customers who violate a curtailment order.

- 1 • Modification of the tariff to make permanent the
- 2 authorizations allowing interruptible customers to buy-
- 3 through curtailment periods.

4 ORS does not take exception to the explanations given  
5 regarding the changes as outlined in the prefiled testimony  
6 and exhibit of Company witness Rose Jackson. ORS has  
7 reviewed Commission Order No.17,286 issued in Docket No.  
8 17,016 dated December 20, 1973 and finds that the Company's  
9 request does not violate the intent of the Commission's  
10 Order where service would be curtailed by category of  
11 service.

12 **Q. MRS. FLYNT, WOULD YOU DESCRIBE THE CURRENTLY APPROVED**  
13 **PURCHASED GAS ADJUSTMENT CLAUSE METHODOLOGY WHICH ALLOCATES**  
14 **DEMAND COST TO THE FIRM RATE CLASS?**

15 **A.** Yes. The Company's two part cost of gas methodology is  
16 comprised of a Demand component and a Commodity component.  
17 The Demand component recognizes the demand placed on the  
18 Company's system by the three firm rate classes of service:  
19 Residential, Commercial and Industrial. The demand  
20 allocations are based upon each class's percentage of the  
21 Company's current Peak Design Day Demand ("PDDD") forecast.

22 **Q. PLEASE DESCRIBE THE CHANGES TO SCE&G'S FORECAST OF GAS COST**  
23 **RECOMMENDED BY ORS.**

1 A. ORS proposes an alternate allocation of demand costs among  
2 rate schedules other than based upon Peak Design Day Demand  
3 (PDDD). It is ORS's position that allocation of demand costs  
4 among rate schedules based on a 50-50 allocation of Peak  
5 Design Day Demand and Annual Forecast Sales is the better  
6 methodology to smooth out the demand costs to firm  
7 customers.

8 Also, ORS requested the NYMEX 12 month strip be updated to  
9 reflect prices as of September 29, 2006. In addition, ORS  
10 recommended that an additional approximate \$2 million of  
11 credits from interruptible sales be recognized.

12 Q. WHAT WILL BE THE IMPACT TO SCE&G'S FIRM CUSTOMERS RESULTING  
13 FROM THE FORECASTED COST OF GAS PROPOSED BY ORS FOR THE  
14 TWELVE MONTH PERIOD BEGINNING IN NOVEMBER 2006?

15 A. The Firm benchmark cost of gas factors proposed are  
16 Residential - \$1.11460 per therm, Small/Medium General  
17 Service - \$1.00434 per therm and Large General Service -  
18 \$0.96252 per therm. Attached, as Exhibit No. \_\_ (CMF-1), is  
19 a comparison of a residential customers' annual cost.

20 Q. WHAT IMPACT WILL THE SALES TO INTERRUPTIBLE COMPETITIVE  
21 CUSTOMERS HAVE ON THE FIRM COST OF GAS?

22 A. Under the Commission approved SCE&G gas cost recovery  
23 mechanism in Order No. 2005-653, dated November 8, 2005,

1 the Company will credit directly to firm customers cost of  
2 gas the net revenue it earns from interruptible sales above  
3 the approved margin. Specifically, this credit to the firm  
4 customers' cost of gas calculation ORS recommended for the  
5 forecast period is \$6,144,941.

6 **Q. HOW DOES THE UNDER-COLLECTION OF GAS COSTS FOR THE TWELVE**  
7 **MONTH PERIOD ENDING OCTOBER 2006 IMPACT THE COST OF GAS FOR**  
8 **THE TWELVE MONTH PERIOD ENDING OCTOBER 2007?**

9 **A.** The projected cost of gas for the twelve months period  
10 November 2006 through October 2007 has been adjusted for an  
11 under-collection of gas costs in the amount of \$2,372,024.

12 **Q. WHAT IS ORS'S POSITION WITH SCE&G'S PROPOSED CHANGE IN ITS**  
13 **PURCHASED GAS COST RECOVERY MECHANISM INCLUDING ALLOCATION OF**  
14 **DEMAND COST AMONG FIRM RATE SCHEDULES AND ALL COSTS AND**  
15 **FACTORS CALCULATED MONTHLY FOR A FORWARD LOOKING TWELVE-MONTH**  
16 **PERIOD?**

17 **A.** ORS continues to recognize that pricing in the natural gas  
18 market continues to be very volatile. As the Commission is  
19 aware both SCE&G and Piedmont Natural have historically  
20 attempted to establish a benchmark cost of gas in billed  
21 rates for a twelve month period with the opportunity to file  
22 for a change should dramatic changes in supplier gas cost  
23 were to occur. During the past year, both SCE&G and Piedmont

1 Natural have filed for Commission approval for out of period  
2 adjustments to their cost of gas. In today's volatile  
3 natural gas market it is the position of ORS that it is not  
4 realistic to think SCE&G or Piedmont Natural gas could  
5 forecast a gas cost that would be representative to rate  
6 payers for an annual period. ORS supports SCE&G's proposed  
7 modification to its currently approved Purchased Gas  
8 Adjustment Clause (PGA) to be computed on a rolling 12-month  
9 forecast of gas supply costs and demand cost related factors  
10 each month.

11 **Q. HAS SCE&G INCLUDED IN ITS PROPOSED PGA CHANGES TO APPLY**  
12 **INTEREST TO THE DEFERED ACCOUNT BALANCE?**

13 **A.** Yes. The Company has proposed to book carrying costs,  
14 positive or negative, on over/under collection balances at  
15 the Company's weighted average cost of capital of 8.43% as  
16 per the most recent rate order.

17 **Q. WHAT IS ORS POSITION WITH SCE&G'S PROPOSAL TO APPLY INTEREST**  
18 **TO THE DEFERED ACCOUNT BALANCE?**

19 **A.** It is ORS's position that the Company be allowed to charge  
20 and recover carrying cost on the over/under collection  
21 balances. The applicable interest rate used to calculate the  
22 interest costs is the rate of interest as of the first day of  
23 each month for 10-year U.S. Government Treasury Bills, as

1 reported in the Wall Street Journal, plus a transaction cost  
2 of 65 basis points (0.65 percentage points). The total  
3 carrying costs rate to include the 65 basis points shall not  
4 exceed 6%.

5 **Q. WHAT PROCEDURE IS IN PLACE TO ENSURE THAT NATURAL GAS**  
6 **SUPPLIES ARE READILY AVAILABLE TO FIRM CUSTOMERS DURING**  
7 **EXTREMELY COLD WEATHER?**

8 **A.** ORS has had numerous discussions with SCE&G representatives  
9 regarding their supply and capacity asset management plans.  
10 These plans are outlined in Ms. Rose Jackson's testimony and  
11 ORS believes SCE&G is prepared to meet its customers' needs  
12 in a reliable manner. Also, SCE&G operates under an end user  
13 curtailment plan previously approved by this Commission. The  
14 curtailment plan will limit purchases of natural gas by  
15 interruptible customers to a level that will not jeopardize  
16 the Company's obligation to serve its firm customers.  
17 Curtailments are determined by the category of service that a  
18 customer is purchasing under and identified in the Commission  
19 approved General Terms and Conditions accompanying each  
20 industrial customer's contract. There may be rare situations  
21 when supplemental deliveries of natural gas may be required  
22 to forestall irreparable injury to life or property including  
23 environmental emergencies. These deliveries defined as

1 Emergency Service must first be approved by the Company and  
2 are exempted from curtailment. With the proposed changes the  
3 company has requested to its curtailment plan, ORS believes  
4 SCE&G has adequate plans in place.

5 Q. HAS ORS REVIEWED THE PROPOSAL IN THE PREFILED TESTIMONY OF  
6 COMPANY WITNESS KENNETH R. JACKSON WHERE THE COMPANY REQUEST  
7 APPROVAL TO ALLOW UNCOLLECTIBLE GAS COSTS TO BE REMOVED FROM  
8 THE COST OF SERVICE AND RECOVERED THROUGH THE FIRM COMMODITY  
9 BENCHMARK OF THE PGA MECHANISM?

10 A. Yes. ORS agrees to the method proposed by SCE&G by which it  
11 calculates, accounts for and recovers uncollectible gas costs  
12 effective November 1, 2007. SCE&G proposes the actual cost  
13 of gas associated with uncollectible accounts will be  
14 recorded in the gas cost deferred accounts and recovered  
15 through the firm commodity benchmark of the PGA mechanism.  
16 The balance of the uncollectible accounts expensed, including  
17 the company's margin, will be recovered through their Rate  
18 Stabilization Act ("RSA") filing. The requested change will  
19 allow SCE&G to recover actual expenses rather than estimates.

20 Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?

21 A. Yes, it does.



# **SOUTH CAROLINA ELECTRIC & GAS COMPANY**

## **Comparison of Rates for Residential Value Service**

### **Based on Annual Residential Usage of 750 Therms**

	(1)	(2)	(3)	(4)
Month	Therms	Rates Effective November 1, 2005	Proposed Rates Effective November 1, 2006	Total Difference Col (3)-Col (2)
Nov-05	100	\$167.94	\$156.95	-\$10.99
Dec-05	100	\$167.94	\$156.95	-\$10.99
Jan-06	100	\$167.94	\$156.95	-\$10.99
Feb-06	100	\$167.94	\$156.95	-\$10.99
Mar-06	100	\$167.94	\$156.95	-\$10.99
Apr-06	100	\$167.94	\$156.95	-\$10.99
May-06	25	\$46.97	\$45.95	-\$1.02
Jun-06	25	\$46.97	\$45.95	-\$1.02
Jul-06	25	\$46.97	\$45.95	-\$1.02
Aug-06	25	\$46.97	\$45.95	-\$1.02
Sep-06	25	\$46.97	\$45.95	-\$1.02
Oct-06	25	\$46.97	\$45.95	-\$1.02
	750	\$1,289.46	\$1,217.42	-\$72.04

# **SOUTH CAROLINA ELECTRIC & GAS COMPANY**

## **Comparison of Rates for Residential Standard Service**

**Based on Annual Residential Usage of 563 Therms**

	(1)	(2)	(3)	(4)
Month	Therms	Rates Effective November 1, 2005	Proposed Rates Effective November 1, 2006	Total Difference Col (3)-Col (2)
Nov-06	100	\$175.68	\$163.95	-\$11.73
Dec-06	100	\$175.68	\$163.95	-\$11.73
Jan-07	100	\$175.68	\$163.95	-\$11.73
Feb-07	100	\$175.68	\$163.95	-\$11.73
Mar-07	100	\$175.68	\$163.95	-\$11.73
Apr-07	9	\$23.44	\$23.81	\$0.37
May-07	9	\$19.97	\$21.81	\$1.84
Jun-07	9	\$19.97	\$21.81	\$1.84
Jul-07	9	\$19.97	\$21.81	\$1.84
Aug-07	9	\$19.97	\$21.81	\$1.84
Sep-07	9	\$19.97	\$21.81	\$1.84
Oct-07	9	\$19.97	\$21.81	\$1.84
	563	\$1,021.66	\$974.43	-\$47.23

# **THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

## **DIRECT TESTIMONY AND EXHIBITS**

**OF**

**PAUL B. TOWNES**



**DOCKET NO. 2006-5-G**

**October 05, 2006**

**Annual Review of Purchased Gas Adjustment  
and Gas Purchasing Policies of South Carolina  
Electric and Gas Company**

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**DIRECT TESTIMONY OF PAUL B. TOWNES****FOR****THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF****DOCKET NO. 2006-5-G****IN RE: SOUTH CAROLINA ELECTRIC AND GAS COMPANY, INC****PURCHASED GAS ADJUSTMENT (PGA)**

**Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS  
AND OCCUPATION.**

**A.** My name is Paul B. Townes. My business address is 1441  
Main Street, Suite 300, Columbia, South Carolina, 29201.  
I am employed by the Office of Regulatory Staff in the  
Audit Department.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received my Master of Accountancy from the University  
of South Carolina in 1979. I have over twenty-five years  
of accounting experience including public accounting and  
private industry. I was employed in the gas industry for  
over eight years. I am a licensed Certified Public  
Accountant in the State of South Carolina.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING SOUTH  
CAROLINA ELECTRIC AND GAS COMPANY?**

1 A. The purpose of my testimony is to present ORS's findings  
2 and recommendations resulting from an examination of the  
3 books and records pertaining to the annual review of the  
4 Purchased Gas Adjustment ("PGA") of South Carolina  
5 Electric and Gas Company ("SCE&G" or "Company") under  
6 Docket No. 2006-5-G.

7 **Q. WHAT ARE THE MOST RECENT COST OF GAS FACTORS APPROVED**  
8 **PRIOR TO THIS FILING?**

9 A. In the prior PGA Docket No. 2005-5-G, Order No. 2005-653  
10 dated November 8, 2005, the Commission approved a Demand  
11 Cost of Gas Factor (DCOG) of \$0.15594 per therm for  
12 Residential, \$0.08083 for Small/Medium General Service,  
13 and \$0.05688 for Large General Service. The Commodity  
14 Cost of Gas (CGOG) was approved at \$1.14135 per therm in  
15 the above docket.

16 **Q. HAVE THESE FACTORS BEEN CHANGED SINCE THE PRIOR ORDER?**

17 A. Yes. For the months of September and October 2005, the  
18 Company used the previously approved methodology which  
19 accounted for the cost of gas as a single factor.  
20 Pursuant to Order No. 2005-653 dated November 8, 2005  
21 the Company was allowed to split the cost of gas into  
22 two components, CCOG and DCOG. By that same order, an  
23 additional procedure was implemented to calculate

1 cumulative over or under collections for each of these  
2 components by the three classes of customers,  
3 Residential, Small/Medium General Service, and Large  
4 General Service. Another procedural change implemented  
5 by Order No. 2005-653 was to allow the Company to change  
6 the CCOG effective with the 8<sup>th</sup> billing cycle of any  
7 month. In December 2005, the Billing Commodity Cost Per  
8 Therm was increased from \$1.141350 to \$1.205650. In  
9 January 2006 the rate was decreased from \$1.205650 to  
10 \$1.141350. In February 2006, the Billing Commodity Cost  
11 Per Therm was reduced from \$1.141350 to the current  
12 level of \$1.071010. Each of these changes was made on  
13 the 8<sup>th</sup> billing cycle.

14 **Q. HOW DID ORS CONDUCT THE EXAMINATION OF THE COMPANY'S**  
15 **DEFERRED COST OF GAS?**

16 **A.** ORS has examined the Company's Cumulative (Over)/Under  
17 Collection calculations for the twelve months ended  
18 August 31, 2006 and traced amounts to books and records  
19 of the Company and to supporting documentation.

20 **Q. IN CONNECTION WITH YOUR TESTIMONY, DID YOU PREPARE, OR**  
21 **CAUSE TO BE PREPARED CERTAIN EXHIBITS?**

22 **A.** Yes. Audit Exhibit PBT-1, Audit Exhibit PBT-2, and Audit  
23 Exhibit PBT-3 are attached to my testimony.

1 **Q. PLEASE EXPLAIN THE FORMAT USED IN AUDIT EXHIBIT PBT-1.**

2 A. Audit Exhibit PBT-1 presents the Company's Cumulative  
3 (Over)/Under Revenue Collection calculation for the  
4 actual test year ended August 31, 2006. Shown first on  
5 this exhibit are the (over)/under calculations for the  
6 months of September and October 2005. These two months  
7 were prepared using the prior methodology that did not  
8 separate the commodity and the demand components. As of  
9 the end of October 2005 the cumulative under collection  
10 was \$16,961,536. Second, this schedule shows the net  
11 (over)/under collection calculations for the months of  
12 November 2005 through August 2006. The cumulative  
13 uncollectible as of August 31, 2006 is \$3,739,076.  
14 Including the Company's projections for the months of  
15 September and October 2006, the Cumulative (Over)/Under  
16 Collection is projected to be \$2,372,003. This differs  
17 slightly from the company due to rounding.

18 **Q. PLEASE EXPLAIN AUDIT EXHIBIT PBT-2.**

19 A. Audit Exhibit PBT-2 shows the calculation of Cumulative  
20 (Over)/Under Revenue Collection by month for the period  
21 November 2005 through August 2006 and the projected  
22 months of September and October, 2006. Column (1)  
23 presents the Total Firm Commodity Cost and represents

1        what SCE&G paid for gas less those amounts purchased for  
2        sale to interruptible customers. Column (2) contains the  
3        Firms Sales Therms. All costs and therm sales shown in  
4        Column (1) and (2) have been verified from the invoices  
5        of the supplier and traced to the books and records of  
6        the company. Column (3) calculates the Commodity Cost  
7        Per Therm by dividing Column (1) by Column (2). Column  
8        (4) is the Billing Commodity Cost Per Therm or the  
9        actual rate billed by SCE&G to its firm customer as a  
10       commodity cost. The months of December, January, and  
11       February show two different billed amounts. The  
12       Commission has allowed SCE&G to adjust the commodity  
13       cost during the month before billing cycle 8 through  
14       cycle 21 to minimize the over or under recovery. Column  
15       (5) shows the difference between the actual cost per  
16       therm and the billing cost per therm which is then  
17       multiplied by the volume in Column (2) to arrive at the  
18       Commodity (Over)/Under Collection for each month as  
19       shown in Column (6). Column (7) presents the Demand Cost  
20       (Over)/Under collection component which is calculated on  
21       Exhibit PBT-3. Prior Month Adjustments, which are the  
22       result of supplier and Company corrections, are shown in  
23       Column (8). These corrections were also verified by ORS.



1 Column (9) presents the Total Monthly (Over)/Under  
2 Collection which summarizes the current month (over) or  
3 under collection including any prior month adjustments  
4 posted in the current month. Column (10) contains the  
5 Cumulative (Over)/Under balance, by month.

6 **Q. PLEASE EXPLAIN AUDIT EXHIBIT PBT-3.**

7 A. This exhibit shows the calculation of the Demand Cost  
8 (Over)/Under Recovery by month, by customer class. Net  
9 Firm Capacity Charges, Line (1) amounts are allocated to  
10 the three customer classes using the percentage  
11 allocation approved by the Commission in Docket No.  
12 2005-5-G, Order No. 2005-653, dated November 8, 2005.  
13 Line (2) contains the Actual Sales Therms for the period  
14 reported by class of customer. Line (3) presents the  
15 Actual Demand Charges Per Therm by customer class and is  
16 a calculation of the Net Firm Capacity Charges on Line  
17 (1) divided by the Actual Sales Therms on Line (2).  
18 (Please see the footnote on Exhibit PBT-3 regarding the  
19 difference in the November calculation.) Line (4)  
20 presents the Projected Charges Per Therm by customer  
21 class as approved in Docket No. 2005-5-G, Order No.  
22 2005-653, dated November 8, 2005. Line (5) is the  
23 Difference between Actual Demand Charges Per Therm and

1 Projected Charges Per Therm by customer class. Line (6)  
2 represents the (Over)/Under Demand Charges, by customer  
3 class, calculated by multiplying the demand cost  
4 differences calculated on Line (5) by the sales volumes  
5 shown on Line (2). The totals shown on Line (6) are  
6 then carried forward, by month, to Column (7) on Audit  
7 Exhibit PBT-2.

8 **Q. DO YOU SUPPORT THE COMPANY'S PROPOSED CHANGE TO THE**  
9 **METHOD FOR THE RECOVERY OF UNCOLLECTIBLE GAS COSTS?**

10 **A.** Yes, Currently, SCE&G recovers its uncollectible gas  
11 costs in its base rates. The proposed change will remove  
12 the gas cost portion of uncollectible expense from base  
13 rates and permit the recovery of these costs through the  
14 purchase gas adjustment. This method will allow the  
15 Company to recover actual expenses rather than  
16 estimates, more accurately matching these expenses to  
17 associated revenues. Upon approval, this procedure will  
18 start in November 2007.

19 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

20 **A.** Yes, it does.

**SOUTH CAROLINA ELECTRIC AND GAS COMPANY, INC.**  
**OVER/UNDER REVENUE COLLECTION**  
**FOR THE TWELVE MONTHS ENDED AUGUST 31, 2006**

	(1) Commodity Cost Per Therm	(2) Commission- Approved PGA Factor	(3) Difference	(4) Firm Terms Sold	(5) Unbilled Monthly (Over)/Under Collection	(6) Commodity (Over)/ Under Collection	(7) Demand (Over)/ Under Collection	(8) Prior Month Adjustments	(9) Total Monthly (Over)/Under Collection	(10) Cumulative (Over)/Under Collection
Beginning Balance at September 1, 2005										
Sep-05	\$ 1.542846	\$ 0.90347	\$ 0.639376	7,809,213	\$ 4,993,023	\$	\$	680,063	5,673,086	6,235,433
Oct-05	2.097550	0.90347	1.194080	8,977,601	10,719,974			6,129	10,726,103	16,961,536
Total				<u>16,786,814</u>	<u>15,712,997</u>			<u>686,192</u>	<u>16,399,189</u>	
November 2005 thru August 2006 Results from Audit Exhibit PBT-2										
				184,481,937		(20,527,698)	6,429,818	875,420	(13,222,460)	3,739,076
Company Projections										
Sept-06, Projected (A)	0.70709	1.07101	(0.363920)	7,506,000		(2,731,584)	2,603,788		(127,796)	3,611,280
Oct-06, Projected (A)	0.65901	1.07101	(0.412000)	8,872,000		(3,655,264)	2,415,987		(1,239,277)	2,372,003
Totals				<u>217,646,751</u>	<u>\$ 15,712,997</u>	<u>(26,914,546)</u>	<u>\$ 11,449,593</u>	<u>1,561,612</u>	<u>\$ 1,809,656</u>	

Note: (A) projections made by SCE&G

**SOUTH CAROLINA ELECTRIC AND GAS COMPANY, INC.**  
**OVER/UNDER REVENUE COLLECTION**  
**FOR THE TWELVE MONTHS ENDED AUGUST 31, 2006**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Total Firm Commodity Cost	Firm Sales Terms	Commodity Cost Per Therm	Billing Commodity Cost Per Therm	Difference	Commodity (Over)/Under Collection Col.2 X Col.5	Demand (Over)/Under Collection	Prior Month Adjustment \$	Total Monthly (Over)/Under Collection	Cumulative (Over)/Under Collection
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Beginning Balance at November 1, 2005										16,961,536
Nov-05	27,293,980	15,595,902	1.750078	1.141350	0.608728	9,493,662	795,639	0	10,289,301	27,250,837
Dec-05	12,051,007	7,933,070	1.519085	1.141350	0.377735	2,996,598				
Dec-05	34,510,581	22,699,531	1.519085	1.205650 (B)	0.313435	7,114,827	(725,333)	219,955		
	46,561,588	30,632,601	1.52000			10,111,425	(725,333)	219,955	9,606,047	36,856,884
Jan-06	14,384,800	13,740,442	1.044272	1.205650	(0.161378)	(2,217,405)				
Jan-06	20,983,211	20,128,127	1.044272	1.141350 (B)	(0.097078)	(1,953,998)	(1,948,334)	32,347		
	35,368,011	33,868,569	1.044272			(4,171,403)	(1,948,334)	32,347	(6,087,390)	30,769,495
Feb-06	9,916,062	9,945,301	0.997055	1.141350	(0.144295)	(1,435,057)				
Feb-06	20,636,886	20,697,878	0.997055	1.071010 (B)	(0.073955)	(1,530,712)	(1,376,136)	320,474		
	30,552,948	30,643,179	0.997055			(2,965,769)	(1,376,136)	320,474	(4,021,431)	26,748,064
Mar-06	18,624,277	26,611,245	0.699865	1.071010	(0.371145)	(9,876,631)	9,053	0	(9,867,578)	16,880,486
Apr-06	7,676,930	16,169,548	0.474777	1.071010	(0.596233)	(9,640,818)	958,164	0	(8,682,654)	8,197,832
May-06	6,366,758	9,497,077	0.670391	1.071010	(0.400619)	(3,804,709)	1,759,214	0	(2,045,495)	6,152,337
Jun-06	4,593,955	7,969,535	0.576440	1.071010	(0.494570)	(3,941,493)	2,685,955	0	(1,255,538)	4,896,799
Jul-06	4,208,172	6,712,236	0.626940	1.071010	(0.444070)	(2,980,703)	2,626,997	0	(353,706)	4,543,093
Aug-06	4,512,382	6,782,045	0.665342	1.071010	(0.40567)	(2,751,259)	1,644,598	302,644	(804,017)	3,739,076
Su-totals	185,759,001	184,481,937				(20,527,698)	6,429,818	875,420	(13,222,460)	
Sept-06, Projected (A)		7,506,000	0.70709	1.071010	(0.36392)	(2,731,584)	2,603,788		(127,796)	3,611,280
Oct-06, Projected (A)		8,872,000	0.65901	1.071010	(0.41200)	(3,655,264)	2,415,987		(1,239,277)	2,372,003
Totals	\$ 185,759,001	200,859,937				(26,914,546)	11,449,593	875,420	(14,589,533)	

Note: (A) - Projections made by SCE&amp;G

Note: (B) - Billing Commodity Cost Per Therm rate changed with billing cycle 8.

SOUTH CAROLINA ELECTRIC AND GAS COMPANY, INC.  
CALCULATION OF DEMAND COST (OVER/UNDER COLLECTION  
FOR THE PERIOD NOVEMBER 1, 2005 THROUGH AUGUST 31, 2006

Description	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06
<b>(1) Net Firm Capacity Charges:</b>										
Residential - 73.30%	\$ 2,095,111	\$ 2,312,002	\$ 1,878,941	\$ 1,985,932	\$ 2,577,280	\$ 2,210,207	\$ 2,097,220	\$ 2,629,881	\$ 2,478,495	\$ 1,759,354
General - 22.65%	647,398	714,418	580,601	613,661	796,390	682,963	648,049	812,644	765,865	543,648
Large - 4.05%	115,760	127,744	103,816	109,727	142,401	122,119	115,876	145,307	136,943	97,209
<b>Total</b>	<b>2,858,269</b>	<b>3,154,164</b>	<b>2,563,358</b>	<b>2,709,320</b>	<b>3,516,071</b>	<b>3,015,289</b>	<b>2,861,145</b>	<b>3,587,832</b>	<b>3,381,303</b>	<b>2,400,211</b>
<b>(2) Actual Sales Therms:</b>										
Residential	7,989,182	19,306,645	22,817,428	20,496,122	17,126,823	9,252,504	3,770,024	2,773,752	2,203,696	2,125,512
General	6,077,871	9,114,166	10,311,858	9,482,513	8,979,932	6,576,500	5,392,019	4,921,453	4,269,939	4,402,749
Large	1,528,849	2,322,809	2,110,312	2,159,270	1,941,174	1,454,140	1,374,772	1,257,693	1,151,934	1,200,534
<b>Total</b>	<b>15,595,902</b>	<b>30,743,620</b>	<b>35,239,598</b>	<b>32,137,905</b>	<b>28,047,929</b>	<b>17,283,144</b>	<b>10,536,815</b>	<b>8,952,898</b>	<b>7,625,569</b>	<b>7,728,795</b>
<b>(3) Actual Demand Charges Per Therm</b>										
Residential	(A) \$ 0.24036	\$ 0.11975	\$ 0.08235	\$ 0.09689	\$ 0.15048	\$ 0.23888	\$ 0.55629	\$ 0.94813	\$ 1.12470	\$ 0.82773
General	(A) 0.09763	0.07839	0.05630	0.06472	0.08869	0.10385	0.12019	0.16512	0.17936	0.12348
Large	(A) 0.06940	0.05500	0.04919	0.05082	0.07336	0.08398	0.08429	0.11553	0.11888	0.08097
<b>(4) Projected Charges Per Therm</b>										
Residential	\$ 0.15594	\$ 0.15594	\$ 0.15594	\$ 0.15594	\$ 0.15594	\$ 0.15594	\$ 0.15594	\$ 0.15594	\$ 0.15594	\$ 0.15594
General	0.08083	0.08083	0.08083	0.08083	0.08083	0.08083	0.08083	0.08083	0.08083	0.08083
Large	0.05688	0.05688	0.05688	0.05688	0.05688	0.05688	0.05688	0.05688	0.05688	0.05688
<b>(5) Difference Between Actual and Projected(Over)/Under</b>										
Residential	\$ 0.08442	\$ (0.03619)	\$ (0.07359)	\$ (0.05905)	\$ (0.00546)	\$ 0.08294	\$ 0.40035	\$ 0.79219	\$ 0.96876	\$ 0.67179
General	0.01680	(0.00244)	(0.02453)	(0.01611)	0.00786	0.02302	0.03936	0.08429	0.09853	0.04265
Large	0.01252	(0.00188)	(0.00769)	(0.00606)	0.01648	0.02710	0.02741	0.05865	0.06200	0.02409
<b>(6) (Over)/ Under Demand Charges</b>										
Residential	\$ 674,413	\$ (698,676)	\$ (1,679,209)	\$ (1,210,233)	\$ (93,476)	\$ 767,371	\$ 1,509,323	\$ 2,197,344	\$ 2,134,850	\$ 1,427,901
General	102,089	(22,280)	(252,906)	(152,811)	70,542	151,385	212,212	414,842	420,726	187,774
Large	19,137	(4,377)	(16,219)	(13,092)	31,987	39,408	37,679	73,769	71,421	28,923
<b>Total</b>	<b>\$ 795,639</b>	<b>\$ (725,333)</b>	<b>\$ (1,948,334)</b>	<b>\$ (1,376,136)</b>	<b>\$ 9,053</b>	<b>\$ 958,164</b>	<b>\$ 1,759,214</b>	<b>\$ 2,685,955</b>	<b>\$ 2,626,997</b>	<b>\$ 1,644,598</b>

Note (A): Per Therm charges were incorrectly calculated by SCE&G for Nov. 2005. This error caused an understatement of the (Over)/Under Demand Charges of \$238,562 for the month of November. The correction is reflected in Column (8) of Exhibit PBT-2.

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2006-5-G**

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IN RE:

South Carolina Electric & Gas Company	)	
Annual Review of the Purchased Gas	)	<b>CERTIFICATE OF</b>
Adjustment (PGA) and Gas Purchasing	)	<b>SERVICE</b>
Policies	)	

This is to certify that I, Pamela J. McMullan, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **DIRECT TESTIMONY AND EXHIBITS OF CAREY M. FLYNT AND PAUL B. TOWNES** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

**Patricia Banks Morrison, Esquire**  
South Carolina Electric and Gas Company  
1426 Main Street, M/C 130  
Columbia, SC 29201

**Belton T. Zeigler, Esquire**  
**John P. Boyd, Esquire**  
Haynsworth Sinkler & Boyd, PA  
Post Office Box 11889  
Columbia, SC 29211

**Scott Elliot, Esquire**  
Elliott & Elliott, PA  
721 Olive Street  
Columbia, SC 29205

  
\_\_\_\_\_  
Pamela J. McMullan

October 5, 2006  
Columbia, South Carolina

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